AGASSIZ RESOURCES LTD.

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ANNUAL REPORT
1979

Officers and Directors

H. J. MOCKLER, President, Toronto

I. D. R. NEILSON, Vice-President, Calgary

I. J. BERSCHEID, Vice-President, Winnipeg

N. E. GOODMAN, Toronto, Ont.

D. W. HILLAND, Calgary, Alberta

Capitalization

AUTHORIZED – 6,000,000 shares N.P.V.

ISSUED – 4,389,902 shares N.P.V.

Registrar and Transfer Agents

GUARANTY TRUST COMPANY

Toronto, Winnipeg, Calgary, Vancouver

Executive Office

Suite 2314, 401 Bay Street, Toronto, Ontario

Registered Office

302 Whitegates Crescent, Winnipeg, Manitoba

Stock Exchange Listing

THE VANCOUVER STOCK EXCHANGE

THE WINNIPEG STOCK EXCHANGE

Auditors

LEEBOSH, APRIL, CURTIS & ARBESS

Montreal, Quebec

AGASSIZ RESOURCES LTD.

Suite 2314 — 401 Bay Street
Toronto, Ontario M5H 2Y4
Telephone (416) 868-0500

PRESIDENT'S REPORT TO THE SHAREHOLDERS

The fiscal period ended June 30, 1979, represents the second year in which Agassiz Resources has been actively engaged in the petroleum industry. Although oil and gas exploration is highly competitive and risky, management is pleased with the progress achieved thus far. With the exception of the Doris Creek venture, our exploration policy has been to acquire small interests in generally low cost drilling or land plays with limited risk and capital exposure. The Company's largest capital commitments to date have been for the purchase of either proven shut-in reserves or currently producing reserves. These commitments were the purchase in East Marten Hills, described in last years annual report, and the more recent acquisition of a 1.9486% interest in two producing gas wells in the YoYo field in Northern British Columbia.

In a short span of time, the Company has managed to obtain a solid foothold in the oil and gas business in Canada and now has a position in several interesting prospects which will be evaluated in the coming months. In the future Agassiz Resources intends to concentrate its efforts on obtaining a similar exposure in the United States. The decision to move in this direction is brought on by the uncertainties over oil and gas pricing and marketing in Canada. This condition exists by virtue of intergovernmental conflicts over taxing authority on resources and, until that issue is resolved, it is management's belief that there may be better opportunities in the U.S. with less regulatory interference.

FINANCIAL

Included in this annual report are the Balance Sheet, Statement of Income and Deficit and Statement of Changes in Financial Position. Shareholders will note that there has been a sharp drop in the company's working capital position. This decrease is primarily attributable to the investment in oil and gas properties described elsewhere in this report and which management is confident will produce substantial revenues in the future. It is anticipated that over the balance of the current fiscal year an improvement in our working capital position will occur as a result of the disposition of non revenue producing assets. In the meantime management believes it has sufficient funds on hand to complete the exploration and drilling projects in which it has an interest.

PETROLEUM ACTIVITIES

GENERAL

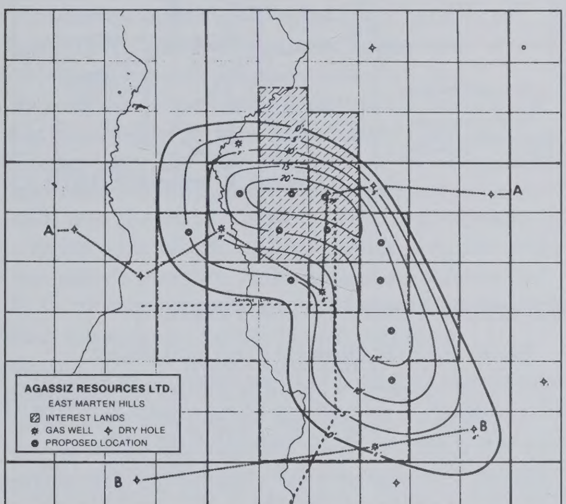
During the year under review and for a short time subsequent to the year end, your Company participated in the drilling of four wells resulting in two discoveries and two dry holes. The dry and abandoned wells were drilled in Hackett and Bittern Lake and were a deep disappointment since each appeared to have considerable potential based on available geology, seismic data and offset well control information. At present, these lease lands, both representing a substantial amount of acreage, are being held in good standing and attempts will be made to farmout the blocks to other parties in return for a drilling commitment. The two successful wells will be described in more detail below.

Along with our drilling activities, the Company added materially to its land position by acquiring varying interests in several other petroleum leases, notably in the Freeman, Cherhill and Loon areas. Also, as was indicated in our last report, we were successful in acquiring some producing properties during the year. Over the next few months we will be participating in several tests which are highly regarded by our operating partners.

EAST MARTEN HILLS, ALBERTA

Natural gas reserves amounting to an estimated 7.0 billion cubic feet in the East Marten Hills field remains one of the most important assets of the Company. Over the past twelve months management has been successful in negotiating a sales contract with Pan Alberta Gas at favourable prices. The commencement of deliveries is subject to the pipeline obtaining

National Energy Board approval on gas exports. Extensive hearings are currently being conducted on export applications and it is expected that a favourable ruling will be handed down soon. In the event that a decision is reached this year the field operator estimates that it will take approximately 18 months to complete the required development wells to justify the construction of gathering and transportation facilities. Sales would start shortly after the deliverability of the field has been established. Failure by the National Energy Board to reach a decision this year will cause a serious delay in our



ability to start the development program because muskeg conditions mandate that drilling be conducted during the winter months. In anticipation of this possibility, Agassiz has been holding discussions with several interested parties with a view to disposing of all or part of its acreage in East Marten Hills. Management believes that the gas reserves could be sold at a very substantial profit and the proceeds re-invested in projects that offer a more immediate return. Hence, the decision to sell or hold these reserves will depend on the outcome of the National Energy Board's hearings.

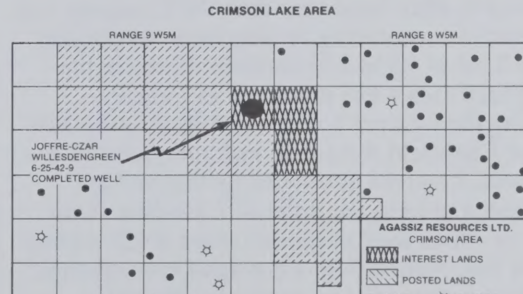
NEBRASKA

As a result of recent exploration by others, the likelihood of successfully finding hydrocarbons, particularly natural gas, on the company's acreage in Nebraska is more favourable. The principal producing horizon which is believed to underlie our holdings is the Niobrara Chalk, an extensive geological unit spreading over several western states. Although the formation generally has low permeability, new completion techniques combined with higher prices now make the Niobrara economical to develop. In this regard, our consortium, holding some 142,000 acres (10,000 acres net to Agassiz), has reached an agreement with a major U.S. corporation to pool this block in an area of mutual interest in return for a firm commitment by the U.S. firm to drill nine wells which would earn it a 50% working interest in the total leases. Depending on rig availability, it is anticipated that the first well will be spudded before year-end 1979, with subsequent wells to follow.

CRIMSON LAKE AREA, ALBERTA

Subsequent to fiscal year end, the Company participated in the drilling of a 10,000 foot well in the Crimson Area of Western Alberta to the extent of 2.0% before payout reducing to 1.5% after payout. The well was located to penetrate the Cardium formation at about 6,200 feet, which is oil productive on the surrounding acreage. In addition, the operators continued the hole below the Cardium to test for other hydrocarbon bearing formations. The well has been completed and, as expected, found commercial quantities of oil in the Cardium. Several other potential zones were found lying between 6,400 and 10,000 feet. Electric logs have been run and these, along with other tests conducted, are currently being evaluated. Results of this work are being held under "tight hole" status pending a land sale on several sections offsetting the test well. Our acreage block consisting of three sections equivalent to 1,920 acres is shown on the accompanying map. Those lands which have been posted for sale are also shown. Should the Company and its partners be the successful bidders for this large lease block Agassiz's interest although small, will require significant amounts of capital in order to develop fully the field. Management is currently studying various methods of raising the necessary capital in the event of a successful land sale.

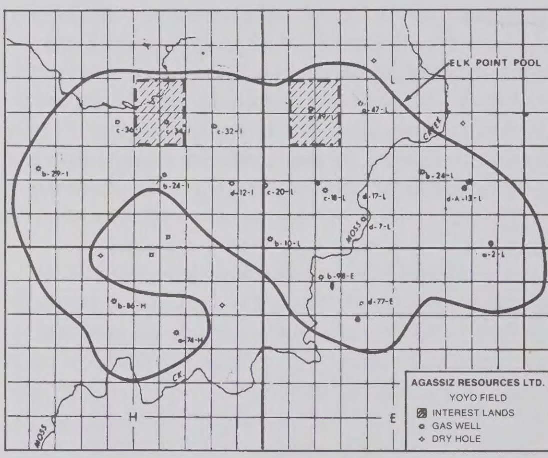
CRIMSON LAKE AREA



YOYO FIELD, BRITISH COLUMBIA

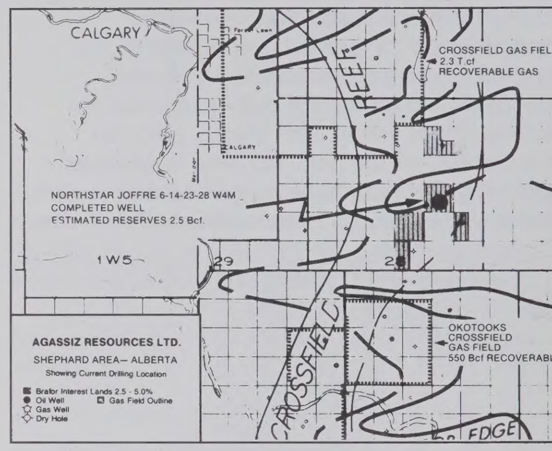
In keeping with its previously stated policy, the Company was successful in purchasing a 1.9486% interest in two producing gas wells in Northern

British Columbia during the year at a cost of $506,000. Of this amount $325,000 was financed with a Canadian chartered bank. Prior to completing the acquisition, an independant engineering report was obtained which indicated our share of the reserves to be about 1.2 billion cubic feet of natural gas having a then present value of $560,000 when discounted at 15%. The prices used to calculate the then present value were considered to be highly conservative. Shortly after the completion of the purchase, gas prices in British Columbia rose significantly, and a recent up date of the engineering study indicates our share of the reserves to now have a value of $650,000 discounted at 15%. This represents an increase of 25% over our original cost and more than offsets the recent sharp rise in interest rates. At present, the wells are generating sufficient revenues to cover principal and interest on the bank loan and we expect that in the near future there will be surplus revenues.



SHEPHARD AREA, ALBERTA

Shortly after fiscal year-end, the Company was successful in acquiring varying interests ranging from 2.5% to 5% in 3.75 sections of land in the Shephard area a few miles east of Calgary. During the summer a well was drilled to the base of the Crossfield formation and completed as a gas well. Reserves developed by this well are estimated to be in the order of 2.5 billion cubic feet, of which the Company's share is 625 million cubic feet. Although this is a significant amount of gas it is not at the moment of sufficient magnitude to justify the construction of gathering facilities. If a pooling of interest arrangement can, however, be made with others in the area who have developed or are capable of developing reserves on a similar scale, total reserves may be attractive enough to interest one of the gas plants in the vicinity to construct a pipeline and purchase the gas. Negotiations in this regard have been started and we are hopeful that they will be brought to a successful conclusion in the near future.



OTHER PETROLEUM ACTIVITIES

Along with the projects described above Agassiz has acquired varying interests in several other attractive oil and gas prospects in Western Canada. Three of these, notably Freeman, Cherhill and Loon, are worthy of mention. The Freeman acreage, consisting of two sections, lies immediately adjacent to a highly prolific reef trend that has to date flowed several million barrels of oil. The flank of this reef, is believed to underlay our acreage and a well designed to test this theory will be spudded before year end 1979. In Cherhill, we were successful in acquiring an interest in one section of land located between four producing oil pools, one of which is a new discovery. This acreage will also be evaluated before year-end. At Loon, Agassiz acquired an interest in two leases totalling one and a half sections lying at opposite ends of the producing Loon oil field. Geological intrepretation, along with other survey data, strongly suggests that the oil producing horizon extends both north and south of the producing field and that the leases in which we have an interest will be productive. The operators expect to commence a well on these leases as soon as a rig becomes available.

Our approach to oil and gas exploration generally has been conservative and for the present, will continue to be so. The basic policy has been to establish an operating base by purchasing either producing reserves which generate immediate cash flow or shut-in reserves that will be capable of coming on stream in the near future. This apporach has been augmented by acquiring varying interests, usually small, in

several well conceived, low-risk exploration projects. To date, this policy has proven successful, and we expect that with the activity planned for the coming months your Company will develop substantial amounts of oil and gas which will provide the framework for further growth.

MINERAL EXPLORATION AND DEVELOPMENT

In keeping with our previously announced intention to separate our petroleum and mineral exploration activities, a number of steps were undertaken during the year to further this objective. Essentially, these included the disposition of the Costa Rican assets held in our previously 50.1% owned subsidiary Comiesa Corporation and the retirement of all of that company's debt through the conversion of such debt into shares of Comiesa. This was followed by a rights issue which added additional funds to the company's treasury. Agassiz then transferred all of its mining properties to Comiesa for shares and, once again, became the controlling shareholder. A widely-distributed public financing is now planned for Comiesa. This infusion of new capital will enable Comiesa to pursue more aggressively the development of its properties, particularly the gold-arsenic-cyanide residue stockpile at Snow Lake, Manitoba and the Beaverdam prospect in Nova Scotia. Because of the large amounts of capital required to develop the Lynn Lake mine, it may be necessary for other mining partners to participate in the development of this project. Thus, discussions are presently being held which would result in a major mining organization bringing the mine into production, leaving Comiesa with royalty interest and a monthly income during the exploration and construction phase.

ACKNOWLEDGEMENT

The progress made by the Company to date is the result of hard work and dedication by our employees and the Board of Directors. On behalf of the shareholders, management would like to express its thanks.

Submitted on behalf of the Board

H. J. Mockler,
President

Toronto, Canada
November 10th, 1979.

AGASSIZ RESOURCES LTD.

(A Company Incorporated Under the Laws of Manitoba)

BALANCE SHEET

As at June 30, 1979

ASSETS

	1979	1978
Current		
Cash and short term deposits	$ 41,976	$ 907,574
Marketable securities, at cost (which approximates market)	296,826	1,036,484
Accounts receivable	17,671	14,355
Accounts receivable, affiliated companies	49,190	—
Receivable from sale of oil and gas properties (Note 2)	53,683	—
Prepaid expenses	—	8,569
	459,346	1,966,982
Investments and Advances (Note 3)	882,018	71,165
Property and Equipment		
Less accumulated depletion and depreciation (Note 4)	1,445,644	425,742
	$2,787,008	$2,463,889

LIABILITIES

	1979	1978
Current		
Accounts payable and accrued liabilities	$ 102,091	$ 134,863
Bank Production Loan (Note 5)	637,175	—

SHAREHOLDERS' EQUITY

	1979	1978
Capital Stock		
Authorized:		
6,000,000 common shares of no par value		
Issued:		
4,389,802 (1978 — 4,389,802) shares	3,216,879	3,216,879
Deficit	(1,169,137)	(887,853)
	2,047,742	2,329,026
	$2,787,008	$2,463,889

APPROVED ON BEHALF OF THE BOARD:

H. J. MOCKLER, Director
N. E. GOODMAN, Director

AGASSIZ RESOURCES LTD.

STATEMENT OF DEFICIT
For the Year Ended June 30, 1979

	1979	1978
Deficit, beginning of year	$ 887,853	$3,847,934
Stated capital applied against opening deficit	—	3,847,934
	887,853	—
Net loss	281,284	693,121
	1,169,137	693,121
Expenses related to rights offering	—	194,732
Deficit, end of year	$1,169,137	$ 887,853

AUDITORS' REPORT

To the Shareholders of
AGASSIZ RESOURCES LTD.

We have examined the balance sheet of AGASSIZ RESOURCES LTD. as at June 30, 1979, and the statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at June 30, 1979, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
October 19, 1979

LEEBOSH, APRIL, CURTIS & ARBESS
Chartered Accountants

AGASSIZ RESOURCES LTD.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1979

1. **Significant Accounting Policies**

a) Property and Equipment

The petroleum and natural gas properties together with related equipment are carried at cost.

The company follows the full cost method of accounting for costs related to the exploration and development of petroleum and natural gas properties. Such costs are accumulated on an area of interest basis and are amortized on the unit of production method based on estimated recoverable oil and gas reserves in each area.

b) Investments and Advances

Investments, other than investment in the subsidiary are carried at cost.

Investment in the subsidiary company is accounted for at the lower of the estimated net realizable value and the carrying value of the investment resulting from the use of the equity method.

2. **Receivable from Sale of Oil and Gas Properties**

The receivable from sale of oil and gas properties became due in October, 1978. The company has instituted legal proceedings and management is confident that the receivable is fully recoverable; accordingly, no provision for loss has been recorded.

3. **Investments and Advances**

	1979	1978
Subsidiary company: 60% of issued capital stock at equity	$ 150,000	$ 1
Advances	13,459	71,163
	163,459	71,164
Affiliated company		
At cost (market — $584,000)	400,000	—
Advances — bank production loan (Note 5)	318,559	—
	718,559	—
Other	—	1
	$ 882,018	$ 71,165

A formal plan has been undertaken by management to dispose of the controlling shares in the subsidiary company; accordingly, the accounts of the subsidiary company have not been consolidated into the financial statements of the company. The investment in the subsidiary company is accounted for at the lower of the estimated realizable value and the carrying value of the investment resulting from the use of the equity method.

The equity value indicated has been calculated from the unaudited financial statements of the subsidiary company as at June 30, 1979.

4. **Property and Equipment**

	1979	1978
Oil and Gas		
Petroleum and natural gas leases and rights together with exploration, development and equipment thereon	$1,460,744	$ 186,555
Accumulated depletion and depreciation	15,100	—
	1,445,644	186,555
Mining		
Mining properties together with exploration and development thereon	—	208,212
Mine buildings and equipment	—	30,975
	—	239,187
	$1,445,644	$ 425,742

5. **Bank Production Loan**

The bank production loan was obtained by the company for the purpose of acquiring an interest in an oil and gas property. One half of the company's interest in this oil and gas property was transferred to an affiliated company which agreed to pay its proportionate share of all costs and expenses in acquiring the oil and gas property as well as its proportionate share of the bank production loan (Note 3).

The bank production loan is evidenced by a demand promissory note issued by the company, bears interest at 1¼% above the bank's prime interest rate (June 30, 1979 — 13¼%) and is secured by the company's and the affiliated company's interest in and production proceeds from the oil and gas property. The loan is repayable out of future production proceeds and, accordingly, is not expected to require the use of existing working capital; therefore, no portion of the loan has been reclassified to current liabilities. The estimated amount of bank loan blended repayments, including repayments due by the affiliated company, for the six years subsequent to June 30, 1979 are $156,000 per year.

6. **Remuneration of Directors and Senior Officers**

The aggregate direct remuneration paid to directors and senior officers, including the five highest paid employees was $73,000 to February 28, 1979 ($23,000 in 1978).

7. **Management Agreement**

The company entered into a management agreement, commencing March 1, 1979, with a company owned by the President and members of his family calling for a monthly payment of $5,500. The agreement grants the manager the authority to hire and dismiss employees and to make the usual contracts necessary for carrying on the business of the company in the ordinary course. The manager shall supply at its own expense, office space, telephone facilities, accounting and secretarial facilities and services and shall assume and pay for all necessary travel and entertainment expenses.

8. **Comparative Figures**

Certain prior year's figures have been reclassified to conform with the presentation adopted in the current year.

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AGASSIZ RESOURCES LTD.
STATEMENT OF INCOME
For the six months ended December 31, 1979
(Unaudited)

	1979	1978 (Re-stated)
Revenue		
Oil and gas production	$ 36,279	$ —
Interest income	24,104	59,696
	60,383	59,696
Expenses		
Oil and gas production	3,399	—
General and administrative	66,554	123,463
Interest	25,695	—
Depletion and depreciation	7,800	—
	103,448	123,463
Loss for the Period, Before Extraordinary Item	43,065	63,767
Extraordinary Item		
Gain on disposal of oil and gas property	753,065	—
Net Income (loss) for the Period	710,000	(63,767)
Deficit, Beginning of Period	1,169,137	887,853
Deficit, End of Period	$ 459,137	$ 951,620
Net Income (loss) per Share	$ 0.16	$ (0.015)

STATEMENT OF CHANGES IN FINANCIAL POSITION
For the six months ended December 31, 1979
(Unaudited)

	1979	1978
Source of Working Capital		
Net Income (loss)	$ 710,000	$ (63,767)
Cost of property sold	471,935	10,423
Repayment of advances	6,553	—
Non-cash items—Depletion and Depreciation	7,800	—
	1,196,288	(53,344)
Use of Working Capital		
Oil and gas properties	67,583	637,168
Reduction of bank production loan	20,655	—
Investments and advances	—	42,833
Mining properties	—	56,255
	88,238	736,256
Increase (Decrease) in Working Capital	1,108,050	(789,600)
Working Capital, beginning of Period	357,255	1,832,119
Working Capital, end of Period	$ 1,465,305	$ 1,042,519

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AGASSIZ RESOURCES LTD.

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INTERIM REPORT
Six Months Ended
December 31, 1979

AGASSIZ RESOURCES LTD.

Suite 2314 – 401 Bay Street
Toronto, Ontario M5H 2Y4
Telephone (416) 868-0500

TO THE SHAREHOLDERS:

The Directors are pleased to submit for your consideration the interim report of your corporation for the six months ended December 31, 1979. Along with the financial statements, including the Balance Sheet, Statement of Profit & Loss and Statement of changes in Financial Position, we are also sending a few comments on the proceedings of the Annual Meeting held in Winnipeg on December 11, 1979.

At the Annual Meeting several items previously outlined in the Notice of Meeting dated November 10th were presented to the shareholders for ratification and approval. All items with the exception of item (d) dealing with the Management Contract were approved. After some consideration it became apparent that the management contract with a company controlled by the President of the corporation created some concern amongst the shareholders and regulatory bodies, and accordingly the item was withdrawn. As noted all other items were passed and the proposed slate of directors was elected. At the organizational meeting which followed the Annual Meeting, Mr. H. J. Mockler was elected President.

Since the publication of the Annual Report one particular important development has occurred, namely the sale of Agassiz's interest in the East Marten Hills gas field. In the Annual Report the Company alluded to fact that the East Marten Hills acreage was under review and that if an appropriate offer was received we would give serious consideration to disposing of the interest. On December 10th, we received a cash offer of $1,225,000 for our 50% interest in six sections of land in the East Marten Hills field. After receipt of the offer, management gave it serious consideration and finally concluded that it would be in the best interest of the Company if it were accepted. In arriving at the decision several factors were taken into account. Among the more important of these were (1) a substantial profit would be generated; (2) working capital would be greatly enhanced; (3) the heavy capital cost required to bring the reserves on stream; (4) the definite prospect of having the commencement of production delayed for as much as two or more years; and finally the rumoured impact that the long awaited Federal Budget might have had on the sale of resource properties. Our assessment of all of these situations led us to the conclusion that the right decision was to sell and accordingly the offer was accepted. The transaction has now been closed and the proceeds added to working capital.

It will be noted that as of December 31st, our working capital stood at $1,465,000, the best position the company has been in for some time. With the improved liquidity Agassiz Resources can now concentrate its efforts on those types of projects which offer the prospects of more immediate returns. In this connection the Company has acquired a 25% working interest (18.75% net revenue interest) in 553 acres of land in Taylor County, Texas. The acreage straddles the principal part of the Shep field which produced over 650,000 barrels of oil in the late 1950's and early 1960's and appears to have been prematurely shut-in as a result of low prices prevailing at the time. A well designed to test several structures in this field has been spudded and results will be forthcoming in the next few weeks.

In the meantime, management is continuing to examine other oil and gas and investment opportunities as they arise. In the latter regard, we would like to draw shareholders attention to the fact that our investment in Manitou-Barvue Mines Limited now has a market value of more than $2.0 million, a 400% appreciation over our original cost. At the same time, we also would like to point out that steps are presently underway to finance our 60.0% owned mining subsidiary Comiesa Corporation. These steps will likely include a public offering which will result in that company becoming self sustaining and sufficiently financed to carry out its program of exploration and development.

On balance, we view the past six months as having been active and successful for your company. With the several projects now on hand combined with a number of others which are being examined we are confident that the remainder of the fiscal year will prove even more successful.

February 18, 1980
Toronto, Canada

H. J. Mockler,
President

AGASSIZ RESOURCES LTD.
BALANCE SHEET
As at December 31, 1979
(Unaudited)

ASSETS

	1979	1978 (Re-stated)
Current		
Cash and short-term deposits	$ 27,009	$ 511,449
Marketable securities	202,422	491,554
Accounts Receivable	29,469	90,957
Accounts Receivable-affiliated companies	26,997	—
Receivable from sale of Oil and Gas properties	1,285,433	—
Prepaid items	425	—
Other	—	5,839
	1,571,755	1,099,799
Investments and Advances	875,465	113,998
Property and Equipment		
Office furniture	2,371	—
Oil and gas properties:		
Producing properties	514,069	25,760
Exploration properties—Canada	363,442	674,990
—U.S.A.	153,610	122,973
Mining properties and equipment	—	285,019
	$ 3,480,712	$ 2,322,539

LIABILITIES

	1979	1978
Current		
Accounts payable and accrued liabilities	$ 106,450	$ 57,280
Bank Production Loan	616,520	—
	722,970	57,280

SHAREHOLDERS EQUITY

	1979	1978
Capital Stock		
Authorized:		
6,000,000 common shares of no par value		
Issued:		
4,389,802 shares	3,216,879	3,216,879
Deficit	459,137	951,620
	2,757,742	2,265,259
	$ 3,480,712	$ 2,322,539

Approved on Behalf of the Board:

H. J. Mockler, *Director*

I. J. Berscheid, *Director*